25 July 1997

ENGLISH ONLY

UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE

SUBSIDIARY BODY FOR IMPLEMENTATION
Sixth session
Bonn, 28 July - 5 August 1997
Item 5 of the provisional agenda

FINANCIAL MECHANISM

REVIEW PROCESS REFERRED TO IN DECISION 9/CP.1

Additional submission

Addendum

Note by the secretariat

1. In addition to the submissions already received (see FCCC/SBI/1997/MISC.3), a further submission has been received from the United States of America.

2. In accordance with the procedure for miscellaneous documents, this submission is attached and is reproduced in the language in which it was received and without formal editing.

FCCC/SBI/1997/MISC.3/Add.1
GE.97- 70204

CONTENTS

Paper No.		Page
1.	United States of America	3

United States Submission to the Secretariat of the Framework Convention on Climate Change:
Experience with the Global Environment Facility (GEF) as the Interim Operating Entity for the Financial Mechanism of the Framework Convention on Climate Change

At the fifth session of the SBI, Parties asked the Secretariat to request submissions from Parties on their experience with the GEF as the entity operating the Convention's financial mechanism. The views of the United States are outlined below.

The United States continues to believe that the the GEF should be designated as the permanent operating entity of the Convention's financial mechanism. GEF fulfils the requirements of Article 11 of the Convention, and it has successfully established operations in the climate change focal area. Although there is much work ahead, the GEF has overcome numerous obstacles that typically face new institutions. It is also doing well in addressing problems unique to its global environment mission, its relationship with the Climate and Biodiversity Conventions, and its integration of work by the World Bank, UNDP, and UNEP.

We believe the GEF has been responsive to Convention Guidance, despite the difficulties of applying, in a timely and thorough manner, a somewhat disorganized flow of guidance to a complex system of project operations involving, ultimately, thousands of people around the world. It has incorporated operational strategy-related guidance from COP-1 (discussed below), and it has acted consistent with guidance on the other issues raised in Decisions 11/CP.1 and 12/CP.1 such as strengthening research and technological capabilities, improving public awareness and education, clarifying eligibility criteria, supporting Stage I adaptation activities, etc. Beyond actions responding to enabling activities-related guidance in COP decision 11/CP.2 (noted below), the GEF has addressed other guidance in that decision by enhancing the "transparency and flexible and pragmatic application of its concept of incremental cost on a case-by-case basis."

The GEF has developed a detailed Operational Strategy (COP Decisions 11/CP.1 and 12/CP.1). It then developed three detailed Operational Programs for the climate change focal area: "Removal of Barriers to Energy Efficiency and Energy Conservation;" "Promoting Adoption of Renewable Energy by Removing Barriers and Reducing Implementation Costs;" and "Reducing the Long-Term Costs of Low Greenhouse Gas Emitting Energy Technologies." A fourth Operational Program for the transport sector in currently under development.

In order to accelerate work on enabling activities, the GEF Council established expedited project development procedures and budgeted resources to meet funding needs for national communications. (Document GEF/C.9/Inf.5 provides guidelines for non-Annex I communications, based on Convention guidance; procedures for enabling activities; formats for enabling activities project proposals; and other materials to facilitate countries' access to assistance.) As a result, 48 countries currently have individual enabling activities projects approved, several small island states are benefitting by special regional projects, and thirty-four additional countries have received partial assistance through regional and global projects. Moreover, the rate of enabling activities project approvals has increased considerably, with 22 individual project approvals in the first six months of 1997 versus 23 in all of 1996.

The GEF Secretariat and Implementing Agencies have worked extensively to further facilitate access to assistance for enabling activities, ranging from workshops to intensified engagement with countries that have not yet developed satisfactory proposals. These steps have been needed since few countries responded to formal requests from the GEF Secretariat and Implementing Agencies in early 1996 for enabling activities proposals.

In short, the GEF has acted in full consistency with enabling activities-related guidance in COP decision 11/CP.2. It has sought actively to facilitate support for timely, high quality national communications by non-Annex I Parties, supported endogenous capacity-building, provided for country specific needs, and considered upon request joint approaches for countries with similar needs. It has also assisted interested countries in developing the national planning capability to develop high quality proposals for climate-related investment projects.

The GEF Secretariat and Implementing Agencies are working hard to help countries identify and prepare effective GEF-eligible projects. We note and appreciate the combined outreach efforts of the Secretariats to countries, including the two workshops held at the March 1997 meetings of the Subsidiary Bodies. As mentioned above, the GEF has worked with interested countries to ensure that the enabling activities process serves to facilitate development of future investment and capacity-building projects that are well integrated into countries' overall economic development strategies. In cases where project proposals have not been accepted, the reasons often lie in pricing, regulatory, and institutional weaknesses in the proposing country that jeopardize project success.

The GEF Council has approved over $640 million in grants for roughly 110 projects (does not include numerous enabling activities approved under expedited procedures or the GEF's "multi-focal" projects with climate components). These GEF grants are leveraging considerable additional funding. For example, of $671 million in GEF grants approved by the end of 1996 for implementation by the World Bank -- of which the majority is for climate change -- the Bank reports that an additional $3.3 billion is being leveraged. Projects cover a broad range of approaches to combating climate change while supporting countries' economic development needs. Notable examples include:

- The **Brazil Biomass Power Commercial Demonstration** and **Biomass Power Generation** projects will help commercialize advanced, clean power plant technologies that use renewably grown wood and crop waste as a fuel feedstock for electric power generation, using the biomass integrated gasification/gas turbine (BIG/GT) technology.
- The **Philippines (Leyte-Luzon) Geothermal** project uses $30 million from GEF to leverage over $1 billion in additional bilateral and private sector investment in one of the world's largest renewable energy projects.
- The **Zimbabwe Photovoltaics for Household and Community Use** project advances an important model for environmentally sustainable rural electrification in Africa and other regions using solar energy, a viable alternative to conventional power plants and traditional fuels which will directly benefit people at the local level. The project develops local businesses to support a sustainable market for solar home systems.
- The **Mexico High Efficiency Lighting** project reduces energy waste and power plant greenhouse gas pollution by stimulating the market for energy efficient lights. It has outstripped all expectations, transforming markets almost 40% faster than expected rates. Training and trade development elements of the project enhance technology development and Mexican capacity to design and implement energy conservation programs. A $10 million GEF grant leveraged over $13 million in cofinancing.
- The **Fund for Renewable Energy and Energy Efficiency** will use $30 million in GEF funding to leverage an equity fund with target capitalization of $110 million and a lending facility of $100 million to expand private sector investment in energy efficiency and renewables energy, perhaps the most important factor for transfer of cutting edge energy end-use and generation technologies. This is the first major international fund for these sectors.

The GEF is relatively new and is in the midst of detailed evaluations of overall performance. However, the GEF's 1996 Project Implementation Review (document GEF/C.9/Inf.7) presents positive indicators for GEF portfolio performance. Despite the particular complexity of global environment projects, disbursements from UNDP are only marginally slower than UNDP's overall portfolio and that Bank disbursements have occurred earlier and more quickly than disbursements for non-GEF projects. The Review also found that the GEF is making progress in reducing the time between approval of projects and the beginning of implementation. The Bank has thus far found only 6% of its GEF projects "at risk," versus 24 % at risk in its non-GEF environment portfolio. The GEF is following the World Bank's example of reviewing lessons learned from existing projects, to help ensure that future projects quickly incorporate the best available knowledge.

It has streamlined several project cycle for more efficient provision of financial and technical support and to enhance the overall effectiveness of projects.

In addition to accelerating the enabling activities process, procedures for project preparation grants and medium-sized project (MSP) grants been streamlined. Most grants under $1 million bypass some steps necessary for larger projects and can be approved by the GEF CEO without waiting for Council voting. The progress in reducing time between project approval and implementation provides evidence for improvement in administrative procedures.

In order to ensure that GEF projects and policy are shaped with the best available knowledge, the GEF has established a Scientific and Technical Advisory Panel (STAP). STAP maintains close contact with the world's premier climate experts, drawing on a roster of hundreds of scholars and development practitioners in dozens of countries. It has strong links with the IPCC, the Convention Secretariat, and the SBSTA.

Strong communication and cooperation appears to have developed between the Convention Secretariat and the GEF Secretariat. Not only do representatives of each Secretariat participate in the relevant meetings of the two bodies, but staff maintain ongoing informal contact on a host of issues. This has facilitated smooth incorporation of Convention guidance into GEF operations and helps coordinate decisionmaking between the COP and the GEF Council. A mutually agreeable memorandum of understanding (MOU) has been developed following careful work over the last two years. At its July, 1995 meeting, the GEF Council approved the MOU, which was jointly prepared by the two Secretariats. At its second session in July, 1996, the Conference of the Parties (COP) approved the MOU in Decision 12/CP.2. At its December, 1996 meeting, per Decision 13/CP.2, the SBI approved the annex to the MOU and referred it to the GEF Council prior to consideration by the COP at its third session. At its April, 1997 meeting, the GEF Council approved the MOU's annex on the determination of funding necessary and available for implementation of the Convention.

Given the points outlined above, the United States believes that agreement of the MOU and its annex overcomes the final hurdle to designation of the GEF as permanent operating entity of the financial mechanism. Like all institutions, the GEF faces a constant challenge to improve itself. Addressing this challenge plays an important role in keeping institutions healthy and effective. We are confident that the current evaluations of GEF performance will identify a number of opportunities to enhance the GEF's function, such as in better mainstreaming protection of the global environment into regular development assistance and country plans. We look forward to working with other countries in helping the GEF seize those opportunities. Nonetheless, it is clear to us that the GEF is the most qualified institution worldwide to operate the Convention's financial mechanism, and we urge that the COP adopt the GEF as the permanent operating entity of the financial mechanism at its third session.

- - - - -